

Other challenges for Brazilian reformers include the obvious difficulty of carrying out reforms in a country as large, complex and heterogeneous as Brazil. By contrast, Menem and the Argentine reformers built on a widespread consensus on the necessity of radical free-market reforms and a relatively small, homogeneous population. Given the more difficult challenges Brazilian reformers face, it is not realistic to expect them to achieve reforms at the same pace as those achieved in Argentina.

Two examples illustrate how the constraints Brazilian reformers face affect the pace and extent of reform. Compared to Menem, Cardoso is taking a go-slow approach to privatisation. As noted above, there were no privatisations between Cardoso's inauguration in January 1995 and the privatisation of Escelsa, a power distribution company, in July 1995. Cardoso has not adopted an aggressive stance on privatisation. He has said that it will take two years to dispose of Companhia Vale do Rio Doce, the iron ore, gold and manganese mining company that should be one of Brazil's biggest privatisations, because of concerns that Congress will try to nullify his decision.<sup>57</sup> Given Cardoso's slower approach to privatisation, it is unlikely that the State will be extricated from Brazil's economy in the same way it was in Argentina. Consequently, privatisation is likely to be partial and less effective in creating economic dynamism than it has been in Argentina.

Again in contrast to Menem, Cardoso has been unable to move forward aggressively in carrying out key constitutional reforms. Perhaps what is most important is that Cardoso has not yet put forward reforms to broaden the tax base. As a result, the government budget is dependent on emergency financing measures that will run out at the end of this year. Cardoso has delayed tax reform because of concerns that changes to the tax system would offer Congress the opportunity to reduce rather than increase federal taxation, while failing to cut expenditures. Cardoso appears willing to delay tax reform for another year to avoid congressionally imposed tax cuts that could only worsen the country's fiscal situation.<sup>58</sup> The reform of Brazil's fiscal system, a crucial step in curing the economy permanently of the inflation that has so long plagued Brazil, may well be a slow and uncertain process.

Recognizing the difficulty of fundamental fiscal reform in Brazil, many observers are sceptical about the long-term prospects of the Plano Real to control inflation. One economist compares the Plano Real with "a temporary dike holding back the

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<sup>57</sup> Angus Foster and Quentin Peel, "Unmoved by the Craze for Failure", *Financial Times*, 27 April 1995.

<sup>58</sup> *Ibid.*